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Foreign Economic Trends and Their Implications for the United States

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MALAYSIA

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KEY ECONOMIC INDICATORS FOR MALAYSIA

Values in millions of U.S. dollars (US$) unless otherwise specified, at the year's average exchange rate, except Foreign Debt and Foreign Reserves (converted at year-end rates). Percentage changes calculated in M$ terms to exclude exchange rate fluctuations.

	1987	1988	1989	1990 Forecast	
Income, Production, Employment					
GNP in 1978 Prices	22,972	23,100	25,333	26,916	
Percent Growth	5.4%	9.5%	9.3%	8.1%	
GNP at Current Prices	30,012	31,660	35,778	39,127	
Percent Growth	11.6%	14.8%	12.6%	11.4%	
Per Capita GNP (Curr. US$)	1,816	1,869	2,059	2,197	
Population (millions)	16.53	16.94	17.37	17.81	
Labor Force (millions)	6.41	6.62	6.83	7.05	
Unemployment Rate	8.2%	8.1%	7.9%	7.5%	
Money and Prices					
Money Supply M2 (M$ millions)	56,459	60,360	68,500		
Growth of Money Supply	5%	6.9%	13.5%	(b)	
Inflation (CPI)	1.1%	2.5%	2.8%	4.0%	
Commercial Prime Rate	7.0%	6.75%	6.75%	6.75%	
Balance of Payments					
Merchandise Exports	17,965	20,146	24,912	26,700	
Merchandise Imports	12,060	14,775	21,120	23,173	
Merchandise Balance	+5,905	+5,371	+3,792	+3,527	
Services & Transfers (Net)	-3,313	-3,630	-3,938	-4,218	
Current Account Balance	+2,592	+1,741	-146	-691	
Exchange Rate (avg., per US$)	2.49	2.71	2.70	2.75	
Official Net For Exch Reserves	7,804	6,763	7,346	8,982	
Foreign Debt (Med. & Long)	20,228	17,232	15,481	14,000	(a)
Debt Service Ratio	14.8%	13.0%	9.3%	8.5%	
Government Finance					
Federal Gov't Revenues	7,269	8,118	9,148	8,941	(b)
Federal Gov't Spending	9,759	9,557	11,000	12,002	
Federal Deficit	-2,490	-1,439	-1,852	-3,061	
Percent of GNP	8.2%	4.5%	5.2%	7.8%	
Overall Public Sector Deficit	-1,591	-633	-1,113	-3,082	
Percent of GNP	5.3%	2.0%	3.1%	7.8%	
U.S.-Malaysian Trade (c)					
U.S. Exports to Malaysia	1,895	2,139	2,875		
U.S. Imports from Malaysia	2,922	3,711	4,745		
U.S. Balance with Malaysia	-1,027	-1,572	1,865		
U.S. Share in Malaysia's Trade	20.1%	19.5%	19.0%		

(a) Embassy estimate **(b)** budget **(c)** exports FAS, imports customs value

Sources: Bank Negara Annual Report 1989
Ministry of Finance Economic Report 1989/1991
Bank Negara Quarterly Report Dec 30, 1989
U.S. Department of Commerce

SUMMARY

Malaysia's economic expansion entered its fourth year in 1989 as domestic demand continued to complement the export boom, which led the economy out of its worst recession since independence. Real output (GDP) grew 8.5 percent in 1989, following 8.7 percent growth in 1988. The government is forecasting real growth of over 8 percent in 1990, a figure well within the economy's reach. However, Malaysia's high export dependence (merchandise exports were 68 percent of GNP in 1989) leaves it vulnerable to a recession in the OECD countries.

National income (nominal GNP) grew 12.6 percent in 1989. Domestic demand took over from exports in providing the economy's momentum in 1989. Private investment grew 36.3 percent, and private consumption spending 15.9 percent in 1989. In 1986 and 1987, net exports accounted for 75 percent of the increase in GNP. In 1988 and 1989, net exports of goods and services declined. This is largely due to increased imports of capital goods and raw materials to support industrial expansion. Malaysia should see continued, broad-based growth in 1990. Investment spending should show strong growth and consumer demand should remain strong. External demand is again expected to make a negative contribution as the external deficit increases. Nominal GNP growth is forecast at 11.4 percent in 1990.

Malaysia's current account posted a remarkable turnaround from a $3.5 billion deficit in 1983 to a $2.6 billion surplus in 1987 (8.6 percent of GNP). The current account surplus narrowed to $1.7 billion in 1988 and moved to a $146 million deficit in 1989. This deficit is forecast to increase to $690 million in 1990. Total exports grew 23 percent to $24.4 billion in 1989, on top of 1988's 22 percent rise. Manufactured goods accounted for over 50 percent of exports in 1989.

Foreign direct investment continues to increase, particularly from Japanese and Taiwanese manufacturers facing higher costs at home. Malaysia's foreign debt declined by $1.8 billion in 1989. The ringgit held steady against the U.S. dollar and appreciated against the yen in 1989.

The overall federal government deficit expanded from 4.5 percent of GNP in 1988 to 5.1 percent in 1989. Government spending and the deficit are budgeted to increase further in 1990 as deferred capital spending is resumed. The corporate tax rate was cut from 40 to 35 percent in 1989, and the 5 percent development tax will be reduced to 4 percent in 1990.

Inflation accelerated to 2.5 percent in 1989 from 0.8 percent in 1987. The central bank expects it to climb slightly to 2.8 percent in 1990, but underlying inflationary pressures and strong economic growth could push it higher. Unemployment declined marginally to 7.5 percent in 1989, with a further decline anticipated in 1990.

MALAYSIA'S ECONOMY IN BRIEF

From 1965 to 1984, the Malaysian economy saw sustained rapid growth and diversification. Manufacturing expanded and supplanted agriculture as the economy's largest sector. In 1989, manufacturing accounted for 25.3 percent of real GDP, agriculture 20.2 percent; services 17.9 percent; mining and petroleum 10.3 percent; construction 3.2 percent; government services 11.4 percent; and utilities 1.9 percent.

The Malaysian economy is relatively open, with total exports and imports of goods and services equal to 133 percent of GNP. As a result, Malaysia is highly dependent on an open, international trading system, and external developments have a strong impact on the domestic economy. Malaysia also remains a commodity producer. Six commodities--petroleum (including LNG), palm oil, rubber, tin, timber and cocoa--still account for one-third of Malaysia's exports. A 20 percent decline in Malaysia's terms of trade in 1985 and 1986 cost the country more than $3 billion annually in lost commodity earnings and drove the economy into its most severe recession since independence, reducing national income, government revenues, consumer spending and investment. 1987 saw a recovery in commodity prices and a boom in exports of manufactured products, lifting Malaysia out of its recession. The recovery has strengthened and broadened in 1988 and 1989, and should continue in 1990.

The New Economic Policy (NEP) was established in 1971 with two objectives: to (1) eradicate poverty in Malaysia and (2) restructure the economy so as to end the identification of race with economic function. In particular, the NEP is designed to enhance the economic standing of ethnic Malays and other indigenous people (collectively known as "bumiputeras").

One important NEP goal is to alter the pattern of ownership of corporate equity in Malaysia. By the end of 1990, the NEP seeks to ensure that at least 30 percent of corporate equity is held by bumiputras, 40 percent by other Malaysians (primarily Chinese and Indian Malaysians), and no more than 30 percent by non-Malaysians. The government has established various trusts which were provided government funds to purchase foreign-owned shareholdings on behalf of the bumiputera population. Foreign firms have been urged to restructure their equity in line with the NEP guidelines. The government estimated that bumiputeras directly and indirectly owned 18 percent of corporate equity in 1985 and foreigners 26 percent. It is generally acknowledged that the goals of the NEP cannot be achieved before the NEP expires at the end of 1990.

In 1988, the government established the National Economic Consultative Commission (NECC) to review the NEP and make recommendations on economic policy beyond 1990. The NECC comprises more than 150 members representing political parties, business, labor, professional groups and individuals (although a key

opposition party -- the DAP -- has withdrawn). It is expected that the NECC will recommend a continuation of the NEP in some form beyond 1990, possibly with more emphasis on education, training and employment and less on capital restructuring.

CURRENT ECONOMIC SITUATION AND TRENDS

Aggregate Demand and Output: Real output (GDP) grew by 8.5 percent in 1989, compared with the 8.7 growth achieved in 1988. This compares well with only 1.2 percent in 1986. Growth picked up in the second half of 1989 to 9.1 percent from the first half's 7.8 percent rate, mainly due to stronger domestic demand. Malaysia's terms of trade improved 2.3 percent in 1988, but declined 0.8 percent in 1989. Nominal GNP grew 14.8 percent in 1988 and 12.6 percent in 1989. This compares with the combined 10.6 percent decline in 1985 and 1986. Nominal GNP growth is expected to remain strong at 11.4 percent in 1990.

Exports led the recovery in 1986 and 1987 but 1988 and 1989 saw a broadening of the expansion and an increasing contribution to growth coming from domestic demand. Net exports of goods and services accounted for 75 percent of the increase in aggregate demand in 1986-87. In 1988 and 1989, net exports of goods and services declined. Private investment grew 36.3 percent in 1989 (in real terms). More and more industries are working near capacity and foreign investors are increasing their commitments to Malaysia. Private consumption grew 15.9 percent in 1989, driven by rising incomes and increased consumer confidence.

Malaysia should see continued, broad-based growth in 1990, but at a slightly slower pace. The government expects private investment to grow another 16 percent and has budgeted an 8 percent increase in public sector investment. External demand is expected to again make a negative contribution to aggregate demand as the country's current account deficit grows.

Manufacturing was 25.3 percent of GDP in 1989 and contributed 2.9 percentage points to the growth of GDP in 1989 as output increased 12 percent. Production of electrical machinery grew 14 percent in 1989 (20.8 percent in 1988). Malaysia is the world's third largest producer of integrated circuits and other semiconductor devices after the United States and Japan. The local industry, dominated by American and Japanese multinationals, boomed from mid-1986 to mid-1988 but saw slower growth in the second half of 1988 and the first half of 1989. Growth rebounded in the second half of 1989. Output of televisions, air conditioners and radios grew rapidly. The rubber products sector expanded 15.2 percent in 1989 after growing 80.6 percent in 1988. Malaysia is the world's largest exporter of natural rubber gloves.

Agriculture is the economy's second largest sector (20.6 percent of GDP), and growth in output expanded to 5.5 percent in 1989 from 5.2 percent in 1988 mainly because of a strong upsurge in palm oil production. The government forecasts 2.6 percent growth in 1990.

Production of saw logs increased a marginal 0.3 percent in 1989 to 37.8 million cubic meters (MCM), while sawn timber production increased 4.5 percent to 6.95 MCM. The main markets for Malaysian forest product exports are Japan, Taiwan and South Korea. Malaysia's National Forestry Policy calls for a reduction in logging from natural forests in Peninsular Malaysia to 4.8 MCM per year after 1995. Palm oil output increased 20.4 percent to 6.1 million metric tons (MT) in 1989, on top of an increase of 10.9 percent in 1988. Malaysia currently produces nearly 60 percent of the world's palm oil. Rubber output decreased 14.4 percent in 1989 to 1.42 million MT in response to lower prices. Malaysia produces 28 percent of the world's natural rubber. Rubber prices have declined from M$3.10 per kilogram in 1988 to M$2.60 per kilogram in 1989. Cocoa production in 1989 was 250,000 tons -- up 9.6 percent from the previous year. This level of output ranks Malaysia as the world's fourth largest cocoa producer, accounting for about 10 percent of global production.

Mineral output expanded 8.8 percent in 1989. Oil production averaged 588,871 barrels per day (bpd) in 1989, an increase of 8.7 percent over 1988's 541,920 bpd. Liquified natural gas (LNG) output was 6.7 million metric tons, up 4.7 percent from 1988. More than 80 percent of Malaysia's gas output is exported in liquified form (LNG) to Japan. Malaysia began work in 1988 on a 450 mile pipeline to deliver offshore gas to the industrial and population centers in Malaysia and Singapore. Completion is set for 1991. After a 4.9 percent decline in 1988, Malaysian tin output grew 11 percent to 30,000 MT in 1989. Malaysia is now the world's fourth largest producer, and output is unlikely ever to regain its 1980 level of 61,400 MT. In cooperation with other tin producers, Malaysia agreed to limit its exports as part of a program to assist the market's recovery from the 1985 collapse of the International Tin Council. Higher tin prices and falling stocks may bring an early end to the restrictions.

The **construction** sector grew 9 percent in 1989, after a 2.7 percent expansion in 1988, due to rising commercial rents and strong housing demand. This reverses a three-year trend which saw a cumulative decline of 30 percent as a result of the recession and a glut of commercial property from 1985 to 1987. The **services** sector grew 7.9 percent in 1989 (7.1 percent in 1988).

Unemployment is forecast to be 7.5 percent of the labor force in 1990, down from 7.9 percent in 1989. Economic growth lifted employment 4 percent in 1989. A previous problem of unemployed university graduates has eased and employers have expressed concern about a possible shortage of engineers and technicians. There are increasing reports of shortages of unskilled labor, particularly in the plantation sector.

Wages and Prices: Inflation, as measured by the Consumer Price Index (CPI), increased to 2.8 percent in 1989 and is expected to expand further to 4.0 percent in 1990. While still moderate by

international standards, inflation is a matter of increasing concern in Malaysia. The 1990 Malaysian budget is targeted at non-inflationary growth. However, strong economic growth, rising wages, a weaker ringgit, and capacity constraints in industry may cause a higher rate of inflation than anticipated by the government.

Balance of Payments and Foreign Debt: From 1983 to 1987, Malaysia's balance of payments turned from a $3.5 billion deficit to a $2.6 billion surplus (8.6 percent of GNP). The current account for 1989 recorded a deficit of $146 million because of a decline in the merchandise surplus and an increase in the services deficit. Merchandise exports registered a third year of double digit growth in 1989, increasing 23.2 percent to $24.9 billion (following a 22 percent rise in 1988). As a result of stagnant non-oil commodity prices in most of 1989, export earnings from Malaysia's traditional commodities (oil, gas, rubber, palm oil, timber, tin and cocoa) increased only 2.5 percent to $8.9 billion. In 1989 manufactured exports increased 36.5 percent to $13.3 billion. Manufactured goods were 54.1 percent of exports in 1989, agricultural commodities were 28.3 percent and minerals 16.9 percent. Imports increased 42.4 percent to $21.1 billion, leaving the merchandise surplus at $3.8 billion ($5.4 billion in 1988).

Malaysia runs a large services deficit. 1989's deficit on services and transfers was $4.0 billion, up from $3.7 billion in 1988. The services deficit is expected to expand to $4.3 billion for 1990. Investment income, the largest component of Malaysia's services account, recorded a gross outflow of $1.8 billion in 1989 due mainly to higher interest and dividend income accruing to foreign investors.

National debt (public and private foreign debt) peaked in 1986 at $20.2 billion. It declined to $17.2 billion in 1988 and $15.5 billion in 1989. Reduction in private foreign debt came as Malaysian companies took advantage of lower domestic interest rates, and reduction in public foreign debt was due to the improved performance of nonfinancial public enterprises and increased domestic borrowing by the government. The debt service ratio (excluding prepayments) fell from 16.2 percent in 1987 to 13.0 percent in 1988 and declined further to 9.3 percent for 1989. As of December 31, 1989, net official foreign exchange reserves stood at $8.0 billion (4.3 months of retained imports).

Money, Interest Rates and the Financial Sector: In the first quarter of 1989, Bank Negara moved to tighten credit in the face of a weakening ringgit. The economy improved and pressure on the ringgit declined in the second quarter. The growth of monetary aggregates accelerated with M2 up 8.4 percent at the end of June as compared with June 1988. Interest rates remained steady and low by historical and international standards. The Base Lending Rate (roughly equivalent to the U.S. prime rate) was set at 7 percent. The rate for three-month fixed bank deposits stood at 4.5 percent for most of 1989. The ringgit came under pressure against the dollar reaching M$2.77 to the dollar in March. It has since strengthened and traded in a narrow band around M$2.70 to the dollar for the rest of 1989 and the first quarter of 1990.

In June 1989 the Malaysian Parliament passed a new banking act which codified and strengthened central bank powers to regulate the financial sector. The new act also requires the local incorporation of foreign banks within five years.

Reflecting the underlying strength in the Malaysian economy and the strength in stock markets worldwide, the Kuala Lumpur Stock Exchange (KLSE) advanced strongly in 1989. In October the Malaysian Government announced the split of the KLSE from the Stock Exchange of Singapore (SES). As a result, Malaysian incorporated companies are no longer quoted on the SES as of December 31, 1989. Singaporean authorities responded by requiring the de-listing of Singaporean incorporated companies from the KLSE by the same date. The KLSE weathered the uncertainty of the split and the sharp fall on the New York Stock Exchange in October, and continued to climb through the second half of 1989. Trading has been cautious in the first quarter of 1990, reflecting the uncertainty in international markets.

Bank Negara regulates banks and finance companies and, since 1988, insurance companies. Malaysia has no deposit insurance system, but Bank Negara has made clear that it will protect deposits in regulated institutions. The bank has taken steps to resolve problems in both regulated and unregulated institutions in order to guarantee the stability of the financial system.

The Public Sector: In 1988 the federal deficit declined to $1.4 billion from $2.5 billion in 1987. The 1989 deficit expanded slightly to $1.8 billion while the 1990 deficit is projected to be $3.1 billion. Since 1985, the Malaysian Government has severely curtailed capital spending and strictly limited growth in operating expenditure. With the recent rapid economic growth, the government has significantly increased capital spending. This in turn has led to the increases in the federal deficit. In 1990 the government will probably fund its borrowing requirements on the domestic market and continue to reduce its outstanding foreign debt. Domestic saving in Malaysia is high and credit ample, so the risk of government borrowing crowding out private borrowing is minimal.

The government cut the corporate tax rate from 40 to 35 percent for 1989 and is phasing out the 5 percent development tax, beginning with a 1 point cut in 1990. This will reduce the effective tax rate to 39 percent. It was 48 percent in 1987. To make up part of the lost revenue, the government broadened the sales tax and plans to move towards a value added tax (VAT). In 1990 import levies and sales taxes were reduced on a number of items, including household products, sporting goods and other consumer items. The government is trying to improve efficiency in the statutory bodies and nonfinancial public enterprises (NFPE's). They are expected to generate operating profits in 1990 sufficient to cover their investment spending, ending their collective drain on the government. The aggregate success, however, obscures the problems at many NFPE's. Public entities control more than 800 companies,

many losing money. The government has pledged to continue reducing losses at the NFPE's and to expand its privatization program. A master plan to privatize some 250 NFPE's is under review by the government.

IMPLICATIONS FOR THE UNITED STATES

U.S.-Malaysia trade grew sharply in 1989. According to Malaysia's Department of Statistics, the United States is Malaysia's second leading trading partner (after Singapore), taking 18.7 percent of Malaysia's exports and supplying 16.9 percent of its imports. In 1989, U.S. exports to Malaysia grew 34.4 percent to $2,875 million. U.S. imports from Malaysia rose 27.9 percent to $4,745 million. The United States ran a $1,865 million bilateral deficit with Malaysia in 1989.

The largest item in trade in both directions is manufactured goods. The United States absorbed nearly 50 percent of total Malaysia exports of electronic component parts, which are 38.8 percent of Malaysian exports to the United States. Crude petroleum accounts for 11 percent of U.S. imports from Malaysia ($518 million).Apparel and clothing accounted for 8.5 percent ($405 million). The United States is also an important market for Malaysian rubber ($147 million) and palm oil ($41 million). Machinery, transport equipment and chemicals are major U.S. exports to Malaysia.

Efforts in the United States to require that food labels identify palm oil, palm kernel oil and coconut oil as saturated fats became a serious trade issue in 1988. Malaysia blamed the American Soybean Association (ASA) for what it saw as a protectionist "smear" campaign, but announced in August 1989 that it had reached a "truce" with the ASA. The U.S. administration has opposed bills requiring food labels to identify tropical oils as "saturated" because it would selectively discriminate against types of oils whose health characteristics are not yet fully understood. The National Heart Savers Association has led a publicity campaign urging Americans to avoid tropical oils and pressing some U.S. food manufacturers successfully to exclude these oils from their products. The Malaysian Oil Palm Growers Association and the Palm Oil Research Institute of Malaysia have countered with a public information campaign of their own.

Perusahaan Otomobil Nasional (Proton), a joint venture between the government-owned Heavy Industries Corporation of Malaysia (HICOM) and Mitsubishi of Japan, has abandoned plans to export automobiles to America. Global Motors, the U.S. agent, failed to obtain U.S. certification for the car and has filed for protection under Chapter 11 of the U.S. bankruptcy code. Proton is successfully exporting cars to the United Kingdom. In June 1988, the AFL-CIO filed a petition seeking withdrawal of Malaysia's trade privileges under the Generalized System of Preferences (GSP) charging that Malaysia does not observe

internationally recognized workers rights. Following an extensive review, the United States Trade Representative (USTR) announced in April 1989, that the GSP Subcommittee had determined that Malaysia "had taken and is taking" steps to respect workers rights, retaining Malaysia's GSP eligibility.

As Malaysian exports to the United States have grown, some have come under increasing scrutiny from American firms invoking trade legislation provisions against subsidies and dumping. In 1988, the United States levied countervailing duties on Malaysian steel wire rod citing Malaysia's investment incentives (tax free pioneer status) as a subsidy. In several other cases, the Commerce Department found no, or de minimis, subsidy. The Commerce Department recently completed monitoring imports of color televisions from Malaysia in response to an antidumping complaint from Zenith.

Investment: American investment in Malaysia is important in the overall relationship. The American Embassy's survey of United States investment in Malaysia revealed that firms with American participation had $6.0 billion in assets in Malaysia at the end of 1988. The portion attributable to the American ownership is $5.8 billion, reflecting the fact that a large portion of the firms are 100 percent United States-owned. The petroleum sector accounts for $2.5 billion in total investment (41 percent of the total), mainly Exxon's offshore oil and gas production subsidiary. Manufacturing investment totals $1.6 billion (26 percent), concentrated in the electronic components subsector ($1.1 billion). These companies planned further investments of $502 million in 1989, $687 million in 1990 and $687 million in 1991.

Expansion and the greater capital intensity of the electronics industry have been a prime factor in the strong United States investment in Malaysia. National Semiconductor inaugurated the first partial wafer fabrication facility in Malaysia in 1987, and Motorola opened the first complete one in 1988. Labor shortages and rising wages in Singapore and Taiwan have led several American, Japanese and Taiwanese firms to relocate the more labor-intensive parts of their operations to Malaysia. Exxon is implementing a major investment program developing offshore oil and gas facilities. Aetna and John Hancock have purchased stakes in Malaysian insurers, joining American International Assurance, a 100 percent United States-owned firm which is Malaysia's largest life insurance company. American Express recently sold its stake in Pacific Bank to a Japanese bank.

Government Policies: In September 1986, the Malaysian Government announced a number of measures designed to deal with the country's economic slowdown and to boost business confidence. The guidelines affecting foreign investors were liberalized. Foreign investors applying before December 31, 1990 to start new projects (except in the plastic injection moulding and metal stamping sectors) will be permitted to retain 100 percent of the equity in a Malaysian subsidiary if they meet either of two conditions: export 50 percent

or more of the output or employ more than 350 full-time Malaysians. The government has pledged that such firms will never be required to restructure their equity as long as they comply with the original conditions of their manufacturing license. Equity guidelines for firms exporting less than 50 percent of their output were also liberalized along with the rules governing work permits for expatriate staff.

The government also introduced several measures to encourage Malaysian business and boost exports. The Industrial Coordination Act (ICA) was liberalized so that only companies with a paid-up capital in excess of $900,000 (up from $360,000) need licenses. Exporters are eligible for a reduction in their taxable income in proportion to the share of their output which is exported and the Export Credit Refinancing (ECR) scheme was expanded. Foreign firms may participate in the ECR. Conditions for foreign investment after the end of 1990 are expected to be no less favorable than those currently available.

Malaysia passed a strong patent law in 1986. It also passed a new copyright law in 1987, which strengthens protection and explicitly extends the law's coverage to computer software. The new law took effect in December 1987, and has significantly reduced piracy. However, Malaysia does not yet provide adequate protection to foreign works. The United States and Malaysia have been working on ways to improve copyright protection of American works, and Malaysia has announced its intention to adhere to the Berne Convention by the end of 1990. Trademark infringement is not a problem in Malaysia for U.S. companies.

OPPORTUNITIES FOR AMERICAN BUSINESS

Malaysia's continuing economic growth presents increasing opportunities for American business. Malaysia's relaxed production sharing agreement terms have produced a small boom in oil and gas exploration activities. A major new pipeline is under construction to pipe natural gas into peninsular Malaysia. The gas will also be the feedstock source for several planned large petrochemical and power projects. There are, therefore, important opportunities for oil and gas equipment, especially for exploration, transmission and petrochemical manufacturing.

Malaysia's telecommunications company was privatized several years ago and continues efforts to make its activities more commercially oriented. There are opportunities in the telecommunications sector for U.S. firms that are willing to make commitments to the market. Computers and peripherals, including those connected with telecommunications and add-on hardware, enjoy a good and growing market. Malaysia's commitment to join the Berne Convention this year should significantly improve the climate for software sales.

Infrastructure provides the most important major project opportunities. The government is committed to programs in power generation and distribution; the National Electricity Board will be privatized in 1990. There are other opportunities in water resources, including toxic waste disposal. A partially completed four-lane 550 mile long expressway running the length of the country was privatized; construction is under way to complete it.

Other opportunities for American firms remain in petrochemicals, medical equipment and aviation services. There are strong indications of a booming market for consumer goods in general.

The continued strong economic growth in Malaysia has resulted in rapid expansion in the retail food sector. Several new upscale supermarkets have opened within the past few years and have contributed to the growing demand for increased imports of a wide variety of processed and high value foods. Currently, there are good opportunities for imports of fresh and processed fruits and vegetables. In particular, prospects are very good for apples, oranges, table grapes, nuts (especially almonds), and frozen french fries. Imports of canned fruit and fruit and vegetable juices from the United States also have been encouraging. Improved consumer incomes, combined with an existing habit of dining out, have encouraged greater imports of high-quality of U.S. beef. With better promotion, U.S. wines also could make some inroads in the expanding Malaysian market.

A change in Malaysian eating habits, aided in part by the introduction of American-style fast food, has resulted in growing consumption of wheat-based products and increased import demand for wheat. The change in diet is also reflected in greater per capita consumption of meat. This has stimulated rapid growth in the domestic livestock industry, which, in turn, has generated greater demand for imported feedstuffs such as corn and soybeans. This expansion in the livestock sector should also improve opportunities for imports of U.S. breeding stock and other livestock genetics. Similarly, a booming textile industry is stimulating demand for cotton imports. Unfortunately, U.S. bulk commodities (wheat, corn soybeans, cotton, etc.) have faced strong competition from nearby exporters such as Australia, China and Thailand. However, the longer range prospects are much better as Malaysia's import demand for these commodities should continue to expand at a good pace, creating improved opportunities for imports of U.S. commodities.

Interested American exporters should contact the Foreign Commercial Service or the Foreign Agricultural Service in the American Embassy for additional information.